From: PATTY STOCKDALE [mailto:ppstockd@wisc.edu] Sent: Wednesday, December 19, 2007 9:34 AMTo: Lasee, Frank; Erpenbach, Jon; Rep.BerceauCc: kingj@fish-ins.com; gaylerose.martinez@ces.uwex.eduSubject: Stop practice of using credit reports to raise insurance rates

Frank.Lasee,Jon.Erpenbach,WI Government

Dear Congressmen,

Please support State Representative Terese Berceau efforts and legislation to stop the insurance industry's ability to tie credit scores to insurance rates. I have fallen victim to higher insurance rates this renewal year when my house insurance increased from $440 to $550 with no additional coverages.

I have excellent credit. However, my auto and house insurance rates increased because of some spurious interpretation by my insurance company (now Acuity, was Safeco) that my credit standing had weaknesses. I do not have frivolous debt (AKA many credit cards). Recently, however, I shopped for financing for my $25,000 new roof and the insurance report said I had too many inquiries to my credit. The insurance report also said that my accounts were not long-term. My newest account started in 2004 while my account with my insurance agent began when I bought my house in 1993. The final punch was that the insurance report said that even if I didn't have these weaknesses that my insurance might be higher anyway. Why is that and how can insurance companies get away with saying that?

If someone cannot afford to live from their wages and must rely on credit card debt to live*, what right do insurance companies have to raise rates based on poor credit. They create a situation where important services become unobtainable due to increasing prices. What does credit rating have to do with driving and homeownership? To answer my own question one connection is that many mortgage holders require owners to escrow for house insurance. When the higher bill is submitted to the insurance company, the bill is automatically paid. This is very crafty of the insurance companies to raise profits.

I have not had any tickets or accidents and no claims. There is no reason for my insurance rates to increase.

Patty Stockdale, 298-0843

* I do not recommend anyone live on credit cards, but they are very assessable for most anyone to "pay" bills.

Eiler Agency, LLC

Eiler Agency, LLC
N3233 Searl Rd
Brandon , WI
1-mile W/ Fairwater 53919

Phone: 920-398-2370
FAX: 920-398-1310
email: NEILER@CENTURYTEL.NET

Tuesday, January 15, 2008

Did I write this letter Great American Rip Off?

Yes I did!
Why would I do such a thing?
Because I'm sick and tired of hearing all the people say!

Why is my insurance rate higher then my brother or sister?

Why did my rate go up for buying a car? Don't they want us to buy a car? or have ins.?

Or the 80 year who pays for everything with cash. Why did they charge me more?

Or my wife died of cancer I had no insurance and I had to pay for all her bills and I'm doing that the best I can so why are they charging me more for auto & home because of it. Don't they want me to pay those medical bills?

Or I lost my job and I got behind on my mort. payments for two months so they charge me even more money to pay for my insurance on my car because of it?

Or I got another credit card and they said that gave me a bad credit score so now I have to pay more for insurance because I got another credit card?

This is a regressive penalty for those who are trying their hardest to get buy in life and these days their are allot of people who fall in these categories way to many to count. We are suppose to protect our hard working tax paying public and help them not hurt them even more then they already are. This practice has to stop we can't keep heaping the load on the overloaded we need to cut hard working folk's some slack as they pay to keep Americas lights on and you in a job towing the line. Those are the ones you represent and take an oath to protect and defend so let's do what you are elected to do and protect and defend them by making this practice illegal for them to use.

David Eiler
Agency owner

Wisconsin State Senate
John Lehman
Senator – 21st District

State Capitol • PO Box 7882 • Madison, WI 53707-7882 • (608) 266-1832 • Toll-free: 1-866-615-7510

Testimony of Senator John Lehman
Senate Committee on Health, Human Services, Insurance and Job Creation
January 17, 2008 Public Hearing
Senate Bill 259

Thank you, Senator Erpenbach and members of the committee for the opportunity to provide testimony on behalf of Senate Bill 259. I regret I cannot appear personally but I am currently chairing a meeting of the Education Committee.

Senate Bill 259 would protect Wisconsin consumers by prohibiting the use of credit report information for issuing or setting auto or home insurance premiums.

Why is bill important to the people we represent?

A person's credit report does not indicate safety of a driver or responsibility of a homeowner. The correlation between credit reports and insurance rates touted by the insurance industry are between credit score and the likelihood a person will make an insurance claim. There is not a correlation between credit score and the likelihood you will be involved in an accident.

It is anti-consumer to base rates not on the likelihood you will be involved in an accident but on the likelihood you will use the insurance protection you pay for.

The nature of a credit report, a formula derived snapshot in time, also fails to take into account the totality of a person's financial circumstances.

By sanctioning the use of credit data in insurance rate setting we allow situations - oftentimes beyond a persons control - such as identity theft, national economic trends, struggles in the mortgage market and bankruptcy due to skyrocketing medical costs to penalize victims with increased auto or home insurance rates. Even though they may never have made a claim or been involved in an accident, received a traffic citation or made a claim on their homeowner's policy.

Additional concerns like errors in credit reporting (estimated to occur on as many as 25% of all reports), inconsistency in the methodology used by credit bureaus and their contractors to generate a credit score, the inconsistent manner insurers use the data and a statistically demonstrated disparate impact on lower income and minority consumers raise further red flags.

Across the country many states are taking a hard look at continuing to allow credit report information to be used to set auto and homeowner insurance rates. I hope that, with your support, Wisconsin can remain at the fore of protecting the interests of consumers and enact Senate Bill 259.

Thank you for your time and consideration of this important consumer protection issue.

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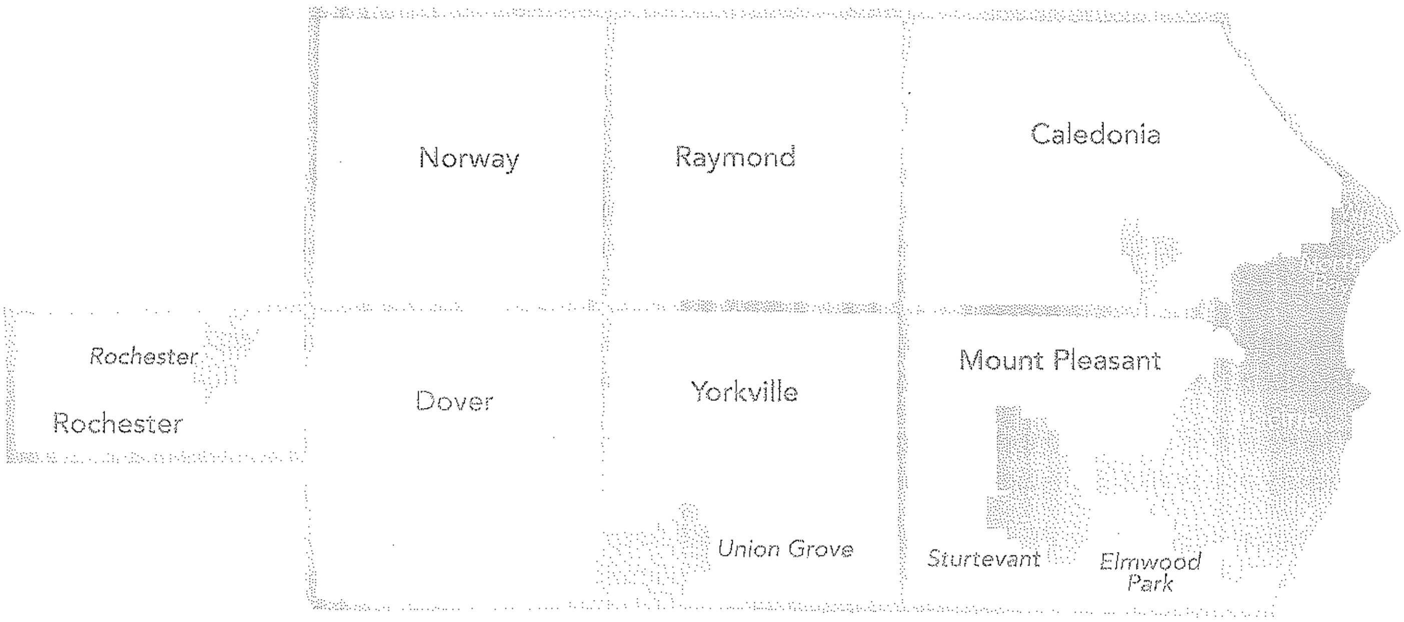
Fax: (608) 267-6793 • E-Mail: sen.lehman@legis.wisconsin.gov • Home: 708 Orchard Street • Racine, WI 53405 • (262) 632-3330

21ST SENATE DISTRICT



UNIVERSITY of WISCONSIN LAW SCHOOL

CONSUMER LAW LITIGATION CLINIC

TESTIMONY ON SENATE BILL 259

COMMITTEE ON HEALTH, HUMAN SERVICES, INSURANCE AND JOB CREATION

Stephen Meili
Director, Consumer Law Clinic
University of Wisconsin Law School

January 17, 2008

Members of the Senate Committee on Health, Human Services, Insurance and Job Creation:

Thank you for the opportunity to testify on the issue of using credit report information to determine auto and property insurance premiums, which would be prohibited by SB 259.

I am the Director of the Consumer Law Clinic at the University of Wisconsin Law School. The Consumer Law Clinic (CLC) represents low-income Wisconsin residents in matters related to their legal rights as consumers. Additionally, we provide education and outreach services to consumers about their rights.

The CLC is concerned about the use of credit reports in determining insurance premiums or as part of a ratings plan. We believe this practice harms consumers for several reasons, and therefore support SB 259.

First, credit reports are irrelevant to the determination of risk because no causal relationship has been shown to exist between the two. Credit reports are generated to assist in determining a person's "creditworthiness". They contain information about a person's credit card experiences, bill-paying history, number and types of credit cards, outstanding debt, credit inquiries, and number of accounts, among other things. Credit reports do not consider risk factors related to insurance, such as likelihood of an incident requiring insurance coverage. However, these variables are precisely the factors insurance premiums are meant to reflect. Thus, using a credit report as a basis for determining insurance premiums is analogous to using a golf score to determine a grade point average. It makes no intuitive sense.

This logically flawed practice has a disproportionately negative impact on many Wisconsin consumers, particularly those who are poor and members of minority groups. For example, lower income consumers tend to have lower credit scores and higher rates of claims than wealthier consumers. The wealthier a consumer is, the more able he or she is to absorb a loss instead of filing a claim. And because wealth is correlated with race, using credit reports as a basis for underwriting has a discriminatory effect on lower-income consumers, a disproportionate number of whom are African American or Latino. Permitting a practice with such disparate repercussions on low-income and minority consumers is bad public policy.

Additionally, studies have shown that credit scores, which are considered numerical indicators of the information in credit reports, are heavily influenced by minority group status. Studies from Freddie Mac[1], Fair Isaac[2], University of North Carolina[3], the Federal Reserve Board[4], the Joint Center for Housing Studies at Harvard University[5], and the Brookings Institution[6], among others, all indicate that African Americans and Latinos tend to have low credit scores at a much higher rate than whites. Conversely, white consumers tend to have good credit scores at a much higher rate than African Americans and Latinos. Further, credit scores seem to be "path dependent"; meaning that low scores tend to decline and good scores tend to increase. In other words, it is difficult for a person with an existing low credit score to substantially raise their score. Thus, the disparity in credit scores between white consumers and minority consumers will continue to grow. Linking insurance premiums to credit scores will result in disproportionately higher premiums for African American and Latino consumers.

Finally, the CLC also opposes the practice of using credit reports for insurance purposes because credit reports commonly contain errors. A 2004 report by the U.S. Public Interest Research Group states that 79% of credit reports surveyed contained some kind

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[1] Freddie Mac, *Automated Underwriting: Making Mortgage Lending Simpler and Fairer for America's Families*, September 1996, at 27.
[2] Fair, Isaac & Co., *The Effectiveness of Scoring on Low-to-Moderate Income and High-Minority Area Populations*, August 1997.
[3] Roberto G. Quercia, Michael A. Stegman, Walter R. Davis and Eric Stein, *Performance of Community Reinvestment Loans: Implications for Secondary Market Purchases*, in Low Income Homeownership: Examining the Unexamined Goal (Nicolas P. Retsinas and Eric S. Belsky, eds. 2002), at 363: Table 12-7.
[4] Robert B. Avery, Paul S. Calem, and Glenn B. Canner, *Credit Report Accuracy and Access to Credit*, Federal Reserve Bulletin, Summer 2004, at 313 (Table 2).
[5] Raphael W. Bostic, Paul S. Calem, and Susan M. Wachter, *Hitting the Wall: Credit as an Impediment to Homeownership*, Joint Center for Housing Studies of Harvard University, February 2004.
[6] Matt Fellowes, *Credit Scores, Reports, and Getting Ahead in America*, Brookings Institution, May 2006.

of error, with 25% containing errors so serious they could result in a denial of credit.[7] These errors often go unnoticed, and most frequently occur in the credit reports of people with common names (e.g. Jane Smith) or those who have been victims of identity theft. Errors on credit reports can have significant detrimental effects on a consumer's financial affairs. Using an unreliable financial instrument as the basis for determining insurance premiums is unfair – and potentially financially disastrous - to those who are denied an insurance-related benefit because of a credit-related error. The people most negatively impacted by this practice are those consumers who are already "on the edge" financially. It is bad public policy to permit a determination with such potentially disastrous consequences to be based on erroneous information.

Insurance companies justify using credit reports in underwriting by pointing to a correlation between credit scores and loss experience. A 2003 study commissioned by the insurance industry indicated that the number of claims filed and the average dollars of loss per insured increased as a credit-based insurance score decreased.[8] This study was limited to private passenger automobile insurance, and by its own admission does not indicate causation or even explain the correlation between credit scores and insurance claims. However, insurers sometimes posit a "moral person" hypothesis, which suggests that a person who is "reckless" with credit may also be reckless in the rest of their matters. This theory disregards the negative impact on credit scores caused by such "unreckless" factors as youth, renting instead of buying a home, using cash for purchases,

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[7] U.S. PIRG, *Mistakes Do Happen: A Look at Errors in Consumer Credit Reports*, June 17, 2004, http://www.uspirg.org/home/reports/report-archives/financial-privacy--security/financial-privacy--security/mistakes-do-happen-a-look-at-errors-in-consumer-credit-reports.

[8] Michael J. Miller and Richard A. Smith, *The Relationship of Credit-Based Insurance Scores to Private Passenger Automobile Insurance Loss Propensity*, EPIC Actuaries (June 2003).

outside credit checks, illness, job loss, divorce, or other financial crises. It is an overbroad generalization that poor credit is the result of "reckless" management of finances.

Adequate insurance coverage is a safeguard against accident or unexpected incident. Credit reports do not provide information about the likelihood of either of these occurrences. A poor credit score does not make a consumer more likely to have an accident or incident, and it certainly does not cause an accident or incident. Thus, using this information, which may be erroneous, as a basis for determining the affordability of insurance coverage is illogical at best, and racially discriminatory, at worst.

The Consumer Law Clinic opposes any practice that unfairly impacts Wisconsin consumers. Using credit reports as a basis for determining insurance premiums is such a practice. Therefore, the Clinic supports passage of SB 259.

Thank you.